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The flexibility of Canadian federalism



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Canadian federalism means different things at different times. It also means different things to different people. Canadian federalism has many different meanings because one of its main characteristics is a moving, changing equilibrium or balance between the forces of unity and diversity, autonomy and solidarity, and liberty and interdependence. Gilles Lalande, a Canadian political scientist, has expressed it this way:

*Federalism is able to take many manifestations and assume an infinite number of forms. In Canada, as in other liberal democratic federations, federalism cannot be defined in terms of a status quo. Canadian federalism always represents a dynamic equilibrium between the powers and the centres of decision-making of the governments of the member states or provinces and the central government.**

Indeed, the political processes and mechanisms of Canadian federalism have never been static. Negotiations and accommodations have gone on continuously, reflecting the internal play and balance of forces between the desire to promote diversity so that our provincial governments can grow and pursue their own interests and the desire to ensure prosperity and stability so that the Canadian government can effect common purposes and deal with common problems. Hence, sometimes decentralization has been strong, sometimes centralization. Senator Maurice Lamontagne has expressed the flexible nature of Canadian federalism in the following manner:

Since 1867, we have known four different (federal) regimes, within a constitution that has remained largely the same. First, we had a very centralized system within which the

**Not an official translation.*

federal government exercised all the major responsibilities of the state . . . After the First World War, the provinces assumed a dominant role . . . The federal hegemony re-appeared with the Second World War, but the provinces, especially since 1957, again began to play a central role within Canadian federalism.

Other Canadians have also noted that our federal system has evolved dramatically over the past 100 years, with periods of great centralization alternating with periods of intense decentralization, according to economic and social circumstances, external pressures and the immediate needs of the people.

Since governments are constantly confronted with new problems, pressures and needs, the fact that the Canadian federal structure can be adjusted flexibly has worked to ensure the realization of our individual and collective goals. As such, it has maximized our freedom of choice.

Of course, as in other federal systems, provincial and national interests in Canada have not always coincided. As a result, there has been a certain amount of conflict and tension in our system of government. However, this should not be regarded as completely unhealthy. It indicates the vitality of both levels of government. It shows that both levels of government are responding to the needs of Canadians. And, it helps to ensure that when policies are decided they reflect our needs both as members of a particular province and as citizens of Canada.

But it also indicates that Canadian federalism requires an ongoing identification of the interests and objectives of each province and of how these interests and objectives complement or conflict with those of the rest of Canada. At all times, co-operation

and interchange between the two levels of government will be, as in the past, an absolute necessity.

Taking a closer look at Canadian federalism, and considering some examples of its flexibility, one can see the way in which it has helped, and is continuing to help, all Canadians achieve their individual and collective goals. To provide a broad view of the functioning of Canadian federalism, the examples discussed include some fields of activity constitutionally allocated to both levels of government and some that are not.

I. Immigration

The Canadian government and the provinces have concurrent powers in immigration matters under the Constitution by virtue of Section 95 of the British North America Act. Section 95 states that: "In each Province the Legislature may make Laws in relation . . . to Immigration into the Province . . . and the Parliament of Canada may from time to time make Laws in relation . . . to Immigration into all or any of the Provinces." However, federal legislation has precedence over provincial legislation when differences exist because immigration has important national dimensions. For instance, it is strongly related to the question of national security. Also, it has a profound effect on our labour force supply and growth of economic activity.

Over the past 110 years, the Canadian government has implemented immigration laws based on Canada's changing needs. However, in the last few decades the provinces have also become more involved in this field. Quebec showed its interest in immigration, for example, by establishing a department of immigration and by taking measures to

encourage francophone immigrants to live in the province.

The federal government welcomed Quebec's initiatives in this field and took steps to help immigrants already established in the province to learn the French language and to orientate themselves to life in their new home in Canada. For example, all the full-time French language and orientation courses offered in the *Centres d'orientation et de formation des immigrants (COFI)* were financed by the federal government, which also paid 50 per cent of the costs of part-time courses. The Canadian government is continuing to provide this assistance today. However, these centres, previously managed by non-governmental bodies, are now administered by the Quebec government.

The federal government also took steps on its own to help Quebec attract immigrants who were suited to its manpower and cultural needs. Several immigration offices were opened in different francophone countries. A large publicity campaign was also undertaken in countries such as France and Belgium to encourage francophone immigration. A third step consisted of working out arrangements with Quebec so that both levels of government could work closely together and pool their resources to achieve maximum success in attracting new immigrants.

This step was implemented by federal-provincial discussions on immigration, which culminated in the Lang-Cloutier accord of 1971. It provided for Quebec to play a role in Canadian immigration offices abroad by assisting and orientating immigrants to Quebec.

In 1975, federal-provincial co-operation was extended by the Andras-Bienvenue agreement. This

arrangement accorded to Quebec an active role in the process of recruiting immigrants. For example, it made provisions for Quebec representatives to interview and advise all immigrants going to that province. Provisions were also made for establishing joint Canada-Quebec missions to recruit immigrants in countries where Canada does not have any permanent immigration offices.

These measures were successful in increasing the proportion of francophone immigrants to Quebec from 20 per cent of all immigrants to that province in the early 1970s to 42 per cent in 1977. Nevertheless, both governments realize that improvements are constantly required. As a result, a permanent federal-provincial committee on immigration has been established so the two governments can exchange information and ideas on a regular basis. The ministers of immigration for Canada and Quebec have also met to work out a plan to co-ordinate and co-operate in all areas that will help francophone immigrants integrate themselves into Quebec society. Discussions have also been held on the subject of Quebec's role in selecting immigrants, and in February 1978, an agreement was reached to give the province a greater say on what people from other countries could move there.

That same month, the Canadian government also concluded separate immigration agreements with Nova Scotia and Saskatchewan based on their special needs and priorities. The agreement with Nova Scotia provides for a joint federal-provincial immigration committee, which will consult on such matters as levels of immigration, policies involving people seeking to immigrate to Nova Scotia or to work or study in the province, and the priorities for processing immigrant applications. The agreement

with Saskatchewan also provides for a joint federal-provincial immigration committee to ensure continuing co-operation in matters of demography and the employment of immigrants and foreign temporary workers. In addition, the agreement outlines the responsibilities of both levels of government for settlement services for immigrants.

II. Income Security

The flexibility of Canadian federalism has a long history. Evidence of this fact is readily apparent in the field of income security. Owing to its flexibility, Canadian federalism has permitted the implementation of a wide variety of income programs that were never conceived of by the founders of our country in 1867. Some of the most important of these are old age pensions, retirement plans, unemployment insurance and family allowances.

Old Age Pensions

In 1917, the two levels of government worked together to establish an old age pension program that provided for federal sharing in the costs of provincial pensions to needy persons over 70 years of age. This program was gradually implemented over the years as the provinces, one by one, enacted appropriate legislation.

While it proved successful in providing the neediest of Canada's older citizens with an income supplement, by the late 1940s, it was apparent that the program did not reflect the changes that had taken place in our country over the past 20 years. Not only were there more elderly people but, in addition, many of them had very limited incomes. Furthermore, Canadians all across the country were

concerned about the situation and public sentiment indicated interest in a national pension plan that would guarantee all of Canada's older citizens a greater measure of income security.

In view of these circumstances, the Canadian government established a parliamentary committee to study the matter in depth. The federal government also got together with all of the provinces to discuss the best way to respond to this need. At a conference in 1950, there was unanimous provincial approval for a national old age pension scheme. As a result, the constitution was amended in 1951 to permit the Canadian government to pass the Old Age Security Act (OAS) and implement a program of old age pensions. However, the new Section 94(A) of the British North America Act stated that a federal law should not affect the operation of any present or future law of a provincial legislature in this area.

In practical terms, this successful federal-provincial collaboration paved the way for all Canadians aged 70 or over to receive income security payments. Since that time, the pensionable age has been lowered to 65 and other important amendments have been made to the program by the Canadian government. A 1966 amendment, for example, provided for the payment of a monthly Guaranteed Income Supplement (GIS) to old age pensioners who have little or no income other than the OAS pension. Similarly, in 1975, approval was given to an amendment whereby a Spouse's Allowance may be paid to the spouse of an OAS pensioner if the spouse is between 60 and 65 years of age and the couple have only a limited income.

Retirement Plans

The agreement on old age pensions is not the only example of co-operation between the Canadian government and the provinces in the field of income security to meet the income needs of older Canadians. In the 1960s, both the federal and provincial governments were interested in establishing retirement plans based on individual contributions. It was recognized that there was an increasing number of Canadians retiring without the guarantee of an adequate or secure income. Private pension plans existed, but the benefits in those plans were usually lost when people changed jobs. In addition, a significant number of Canadians did not have access to them. A universal plan was needed to facilitate the mobility of Canadians while at the same time guaranteeing them greater income security.

Both the federal and provincial governments had the right to legislate in this field because of Section 94(A) of the British North America Act, and both the Canadian government and Quebec put forth plans. Each plan had provisions for ensuring that retired Canadians would have a secure income, but differences existed on a number of matters relating to the implementation of these provisions. Therefore, negotiations and discussions were undertaken at federal-provincial conferences and in private meetings. After two years, Quebec and the Canadian government were able to reach a mutually satisfying accommodation.

Quebec kept all the freedom it needed in this field. It would have its own plan tailored to its own needs, and it would harmonize with the Canadian government's plan for the other nine provinces only to the extent necessary to ensure that people moving in and out of Quebec would retain their benefits.

The agreement was also extremely beneficial to Canadians because it modified both of the original plans and substantially improved the benefits retired Canadians would receive. In fact, several adjustments were made to the two plans and Quebec played a major role in bringing about the changes that permitted increased income protection for retired people and, in the event of their deaths, their spouses and children.

Unemployment Insurance

Another example of flexibility in the field of income security is the Unemployment Insurance program. In the late 1920s and early 1930s when the world depression created economic hardships all across Canada and put thousands of people in every province out of work, the federal government and some provincial governments began to see the need for Unemployment Insurance. Quebec was a front runner in seeing this need, and in 1930, the Quebec Social Insurance Commission reported in favour of a federal scheme of Unemployment Insurance. However, other officials, not so sure the Canadian government should assume this responsibility, thought that each province should take care of it.

For its part, the Canadian government believed that a national policy was necessary to ensure that all Canadians would receive the same benefit. Unemployment was a problem all across the country and every unemployed person, wherever he or she lived, had the same basic need for income to pay for the necessities of life. Besides, provinces with the highest levels of unemployment needed income redistributed in their favour since they were the least capable of dealing with the situation.

In light of the strong provincial interest in this field, however, the Canadian government believed that it could proceed only with unanimous provincial approval. Thus, negotiations and discussions were undertaken in 1937 and they continued for three years. By 1940, the last provinces, including New Brunswick, Quebec and Alberta, concurred with the others that a federal scheme was desirable and the constitution was amended to provide for it.

This initial federal-provincial co-operation proved highly successful in providing unemployed Canadians with income protection and Canadians are still benefiting from it today. In fact, since the federal Unemployment Insurance legislation includes provisions that make it sensitive to regional needs and changing economic conditions, many adjustments have been made in the program over the years. These changes have provided unemployed Canadians with increased income protection. One contemporary illustration is the recent change in the program that permits people living in regions of high unemployment to have access to benefits for longer periods of time.

Family Allowances

Another example of the give and take that Canadian federalism permits and facilitates can be seen in the development of the Family Allowance program. First inaugurated by the federal government in 1946, the Family Allowance program was a response to the need of Canadian families all across the country for a certain minimum amount of income maintenance. During the 1920s and 1930s some of the provinces had helped the neediest of Canadian families by mothers' allowance programs, but not every province had been in a financial position to

provide this assistance. As such, it was difficult to expect that they would be able to undertake the more expanded income measures that were required by the 1940s. Besides, there was an important national economic dimension to be considered: Canadian families needed increased consumer purchasing power to keep the Canadian economy strong so that there would not be a depression like the one that followed World War I. It was under these circumstances that the federal government decided to exercise its powers in this field and undertake a Family Allowance program to assist families in every province by providing a monthly payment on behalf of every Canadian child under the age of 16.

In the years that followed, this income supplement proved successful in averting the expected depression and in helping Canadian families meet their basic needs. However, by the 1960s, some of the provinces were starting to show a renewed interest in this field. Quebec was a forerunner in this regard and decided that it would be beneficial to extend the benefits by developing a provincial youth allowance program to cover 16 and 17-year-olds. This was established in 1961, providing further income assistance to Quebec families and also encouraging continued school attendance, a condition of the benefit.

Quebec's program was viewed with interest by the Canadian government and the other nine provinces, and in 1964, they decided to co-operate in this area and establish a nationwide program of youth allowances. Since Quebec wished to retain its own program, it kept all the freedom that it needed in this area and received a tax abatement to cover the funds it would have received if it had participated in

the federal youth allowance program for the other provinces.

Another important development in this period came in 1967, when the Province of Quebec established its own program of family allowances. Supplementing the federal allowance scheme, Quebec's program was beneficial in sustaining the essential needs of families in that province by providing them with additional income. Furthermore, since the payments were based on a scale according to the number and order of children in a family, Quebec was able to ensure that the income was redistributed in favour of those families most in need of assistance.

None of the other provinces implemented similar measures. The federal government, however, felt that the social and economic circumstances of the 1960s called for a re-examination of Canada's income policies, including the Family Allowance program, and undertook a comprehensive review of the situation. The results of this review, which recommended a revision of the federal Family Allowance program, were expressed in the White Paper entitled "Income Security for Canadians." About the same time, Quebec also undertook a comprehensive review of the income needs of Quebecers, and its findings and recommendations were produced in the Castonguay-Nepveu report.

Against this background, federal-provincial discussions were undertaken. There was agreement that the Family Allowance program would be more effective if it was integrated with the youth allowance program, if the condition concerning school attendance was dropped and if the total payments were increased. Quebec, however, suggested that the program would be better adapted to local conditions if it was administered entirely by the province. For its

part, the Canadian government believed that the national system should be retained to avoid any extremes in income disparities, but was in favour of more flexibility to enable the provinces to vary the benefit levels so that the Family Allowance program could be adapted to local needs.

Under these circumstances, the federal government and the provinces negotiated, with the net result a new federal Family Allowance program in 1973, which showed that both provincial and national objectives could be achieved. Under the program, the Canadian government would continue to provide family allowances to all Canadian children up to the age of 17 to ensure families in every province of a certain amount of income maintenance. However, any province that needed more freedom in this field to adapt the program to local conditions could request the federal government to vary the rates payable. These could be varied on the basis of the age of the child or the number of children in the family, or both, provided the smallest monthly rate was at least 60 per cent of the federal rate and the average monthly amount paid for all children in that province was equal to the monthly federal rate. In addition, provinces that wished to supplement this program with their own allowance scheme could do so.

About 7.5 million Canadian children in about 3.5 million families all across the country are benefiting from the results of this successful federal/provincial co-operation. Only Alberta and Quebec have exercised the option of having the Family Allowance rates varied, but every Canadian family has been guaranteed of a larger amount of income support. Quebec also has a provincial allowance program that it finances and administers on its own and Prince Edward Island provides additional provin-

cially-financed benefits for the fifth and subsequent children of families in its province. These benefits are included in the monthly federal cheque. None of the other provinces offer supplementary benefits, but the Family Allowance program's flexibility ensures that they can make adjustments for local conditions that may be necessary in the future.

III. Social Services

Canadians all across the country also have access to a number of essential social services provided by the co-operation of the Canadian government and the 10 provincial governments. Two of the most important of these are hospital insurance and medical care insurance. Constituting a comprehensive health care package for Canadians, they are important illustrations of the flexibility of federalism in the field of social services.

Hospital Insurance

In the mid-1950s, there was widespread interest among Canadians in health insurance to provide protection against the costs of hospital services. As a result, the provinces asked to discuss this subject at the federal-provincial conference being held at that time. Provinces, such as Saskatchewan, British Columbia, Alberta, Ontario and Newfoundland, already had some type of hospital insurance program in effect, but, with the exception of Saskatchewan's plan, they only covered a small percentage of their respective populations. For its part, the federal government was interested in helping the provinces meet the health care needs of Canadians, and expressed its willingness to provide them with financial

assistance to ensure that residents of every province had access to this service.

As a result of this initial federal-provincial discussion, the Canadian government developed proposals for a nation-wide system of hospital insurance based on the concept of interlocking provincial plans, and further talks were undertaken with the provinces. Their negotiations successfully concluded with an agreement that the Canadian government would provide each province with 50 per cent of the insured costs of hospital insurance after it passed legislation providing for such a program. As such, it would be a "cost-sharing" arrangement, with each province administering its own hospital insurance program and paying for the other half of the costs incurred in its province. At the same time, the provinces would adhere to certain conditions to ensure that the standards of health care were uniformly high all across the country and to provide protection for Canadians moving from one province to another.

This agreement was embodied in the federal Hospital Insurance and Diagnostic Act of 1957. In the subsequent years, each province, in turn, entered into an agreement with the Canadian government to provide this essential service. By 1961, every province had a hospital insurance program. As a result, today, over 99 per cent of the total Canadian population has protection against the high costs of hospital services.

Medical Care Insurance

Following the successful implementation of the hospital insurance program, many members of the Canadian public became interested in insuring themselves against the costs of physicians' services. Both levels of government were also interested in

providing this protection to Canadians. In fact, in the 1950s, when health care was first discussed, they had agreed that it was the second phase in the development of a total health care package. However, not all of the provincial governments felt that it was a priority at that time.

For its part, the Canadian government felt that it was essential. Private plans existed and three provincial governments had already implemented medical care legislation. However, a federal Royal Commission on Health Services (the Hall Commission) found that while nearly 60 per cent of Canadians had some form of insurance against the costs of medical care, approximately 30 per cent of this insurance was totally inadequate.

Against this background, the federal government met with all of the provinces in 1965, and proposed the implementation of a nation-wide medicare program based on interlocking provincial plans. Upon provincial agreement, the federal government was prepared to contribute 50 per cent of the insured costs to provinces that enacted a medicare plan. Again, the provinces would be required to comply with certain conditions to ensure national standards of service and protection for Canadians moving from one province to another, but they would administer this cost-sharing program just as they did the hospital insurance program.

Considerable negotiation and discussion were required before provincial agreement was reached on this proposal. But within a year, the Canadian government was able to pass the federal Medical Care Act. Again, the provinces, in turn, passed legislation to provide their residents with protection against the costs of doctors' services. By 1970, New Brunswick, the last province, joined the program.

Thus, Canadians gained national programs of health care. However, provincial administration of these programs has enabled the provinces to develop different ways of delivering these services and of financing their share of the costs, according to local needs and conditions. Consequently, there is considerable diversity from province to province. Some provinces administer their plans through separate funds or commissions; others operate them as part of their health departments. Likewise, some provinces use a system of premiums or pay-roll taxes to finance a greater or lesser part of their share of the costs; other provinces finance their share exclusively from general tax revenues.

Since the inauguration of the health care programs continuing federal-provincial co-operation has also given the provinces increased flexibility in both the financing and the adaptation of these services to local needs. In fact, several important changes have been made since the 1960s, but two have been particularly significant.

The first was instituted in the mid-1960s when several of the provinces, and especially Quebec, were interested in having greater flexibility in the financing of these programs. Under these circumstances, the Canadian government agreed that any province could receive the federal government's share of the costs in the form of tax abatements — a reduction of federal taxes to allow an equivalent increase of provincial taxes — rather than in the form of cash payments, which was the original agreement.

This arrangement known as “contracting-out” allowed Quebec, the only province to exercise this option, to assume full financial responsibility for the programs. At the same time, it ensured that Quebec

received the same benefits it had been receiving under the cash payment agreement.

Another important set of changes in the health care programs was instituted in the mid-1970s. An outgrowth of federal and provincial concern over the rapidly escalating costs of these programs and a desire to have them more fully reflect local needs and conditions, these changes were also successful in accommodating the interests of the two levels of government.

Both levels of government were able to get greater control over the costs of the programs by the unanimous decision to "untie" the Canadian government's contribution from actual spending by the provinces and to base it on the growth of the economy. At the same time, the provinces also received increased fiscal flexibility with the decision to make a substantial portion of the federal contribution in the form of a tax transfer. In addition, since certain conditions originally attached to the programs were dropped, the provinces had full flexibility to adapt them to local needs.

It will be several years before the full effects of these changes are felt. However, they affirm both the continued partnership of the Canadian government and the provinces in the provision of high-quality health care services to all Canadians and their ability to develop creative solutions to ensure the effectiveness of these programs as conditions and needs change.

Perhaps nothing attests to this reality more than the compliment paid to Canada by the United States during the visit of the American Secretary of Health, Education and Welfare, Mr. Califano, in 1977. Acknowledging that Canada was 20 years ahead of the United States in the provision of health care services,

he said that they would use our program as a guide for the development of their own national system. He stated that Canada's system is "one of the most valuable guides we can have — a marvellous fund of knowledge about one of the most important social and political issues of our era."

However, Canada's success in implementing "cost-sharing" arrangements with the provinces has not been limited only to health care. Over the years, various "cost-sharing" arrangements have also been implemented to provide such important services to Canadians as social welfare through the Canada Assistance Plan and post-secondary education.

IV. Economic Policy

Regional Development

The flexible nature of Canadian federalism can also be seen in the field of economic policy. Since 1867, one of the federal government's most important functions has been implementing economic policies that harmonize the regional economies in Canada and promote balanced regional development. These policies have been extremely successful in promoting economic growth and prosperity in all of the provinces. However, in the late 1950s, it was apparent that some areas were growing at a much slower rate than the others. The federal government therefore decided that some of the funds generated by the rapid economic growth in certain regions should be allocated to the slower developing areas through specific programs that would promote productivity. Since the provinces were also starting to show an interest in this field, the Canadian government felt that it would be useful for the two levels of government to co-operate and work out suitable programs.

Consultations were undertaken with the provinces, culminating in the Agricultural Rehabilitation and Development Act (ARDA) in 1961, the forerunner of later federal-provincial schemes for economic development. Under this act, the Canadian government and the provinces entered into agreements that provided for joint financing of land and water conservation programs to alleviate the high incidence of low income in rural areas. In addition, a Fund for Rural Economic Development (FRED) was introduced in 1966 to provide assistance to those areas requiring resources beyond those supplied by ARDA. Again, agreements were entered into with the provinces, but in this case, the emphasis was shifted to industrial rather than agricultural development.

Alongside these joint programs, individual provinces, such as Quebec, also instituted regional development policies so that by 1969, both levels of government had moved a considerable distance in dealing with the problem of regional disparities. Today, even more progress has been achieved in this area. Successful federal-provincial negotiations over the past eight years have permitted the two levels of government to improve their original approaches and to introduce new elements that have made their regional development policies more effective.

One development that has proven to be very beneficial was the creation of the federal Department of Regional Economic Expansion (DREE) in 1969. This enabled all the joint federal-provincial programs to be co-ordinated for the first time; and, since its re-organization in 1973, the department has been able to provide continuing on-site analyses of economic and social circumstances in all slow-growth areas of Canada. This reorganization involved

massive decentralization of staff, administration and decision-making authority. DREE offices, headed by directors-general, were established in the 10 provincial capitals. Regional offices, directed by assistant deputy ministers, were set up in Moncton, Montreal, Toronto and Saskatoon to co-ordinate activities in their particular regions.

A second important development was the implementation of the General Development and Subsidiary Agreements. Under the framework of these agreements, the Canadian government and each of the provinces have negotiated a multi-dimensional 10 year development strategy that co-ordinates federal-provincial actions and provides for annual discussions on the matter. The General Agreements are flexible so that specific actions by both levels of government are tailored to the specific needs of each area and its people, and to opportunities as they are identified. The specific programs carried out under the provisions of the Subsidiary Agreements therefore vary from time to time and place to place in accordance with provincial needs and wishes. In fact, they can encompass any development that the Canadian government and the signatory province agree will lead to greater growth. For example, in Quebec this year, programs worth \$400 million were allocated to Eastern Quebec and the North Shore, Abitibi-Temiscamingue and Saguenay-Lac Saint-Jean. They involved improvements to highway networks, reforestation and silviculture as well as agricultural development.

Equalization

Canada also provides assistance through equalization to provinces with relatively weak economies. Through this program, payments are made

to those provinces that are below-average in their capacity to derive revenues from taxation. The purpose of the program is to make it possible for all provinces to provide reasonable levels of public services without having to resort to above-average levels of taxation. The payments have an "equalizing" effect because they go only to those provinces which are below-average in taxing capacity.

First implemented in 1957, this program was designed to deal with the fact that expenditures for social services had increased rapidly after World War II. Since Canadians all across the country needed access to these services, all of the provinces had to be ensured of sufficient funds to carry out their legislative responsibilities and meet these needs.

The flexible nature of the federal structure made it possible for the Canadian government to develop the equalization program and meet those needs. It could be said that its success over the past 20 years has been determined in part by the fact that the payments are made unconditionally. That is to say, they may be used by the receiving provinces in any way they see fit.

However, the program has been very successful also because the amount of equalization payments is based on a formula that is sensitive to changing provincial economic circumstances, and hence, their ability to raise revenues in any particular year. In fact, over the years, the Canadian government has refined the formula after extensive consultations with the provinces so that today it is based on almost the entire range of provincial taxes including income taxes, general sales taxes, special consumption taxes levied on alcohol, tobacco, gasoline, etc., property taxes levied for local school purposes, and various

kinds of royalties and levies on natural resources. The latter resources, if they are of a non-recurring kind, are included to the extent of one-half only.

Indeed, the present equalization formula is undoubtedly unique in comparison with those that exist elsewhere in the world. There is no corresponding program in the United States and, while some other federations do have very important systems of equalization, the Canadian program appears to be the largest of its kind and also the most advanced in measuring differences among regional governments with respect to their capacity to raise revenues. It is also the only program in which it has been necessary to take into account major differences between regional governments in their capacities to raise revenues from natural resources.

It is not surprising then that, along with the refinement of the formula, there have also been significant increases in the total amount of equalization payments made by the Canadian government over the years. For example, in the last 10 years alone, Quebec's share has risen from \$268,715,000 (\$46 per capita) in 1967-1968 to \$1,273,973,000 (\$203 per capita) in 1977-1978. Alberta, on the other hand, has not received any equalization payments for some time now because of its above-average capacity to raise revenues as a result of the oil related activity in that province. However, in the 1950s and 1960s, Alberta was considerably assisted by equalization payments just as the four Atlantic provinces, Quebec, Manitoba and Saskatchewan are being helped today. Drawing upon the strength of some regions to assist the temporary difficulties of other regions is the very essence of equalization.

V. Conclusion

The foregoing examples are only a few of many that could be considered in looking at the flexible nature of Canadian federalism. However, the examples listed cover a wide variety of governmental activities in Canada demonstrating the following:

ates is capable of achieving the goals of Canadians. Not all of Canada's goals have been examined. However, it has been seen that those related to the achievement of more equal opportunities, both economically and in terms of social services, have been met by such measures as old age pensions, Unemployment Insurance, regional development, equalization, etc. Through payments to individuals or to provinces, these programs have helped all Canadians to enjoy more equal opportunities for individual and collective fulfillment.

At the same time, these policies reflect the special needs of Canadians as members of a particular province. As indicated, sometimes these needs were primarily cultural, as in the case of immigration. At other times, as in the case of regional development, the needs were primarily economic. However, as the policy of equalization showed, the special needs of the provinces frequently involve a mixture of economic, cultural and social factors. It will be remembered that all of the provinces have to be guaranteed sufficient revenues to permit them to carry out their legislative responsibilities in a way that fulfills the special social, economic and cultural needs of their respective residents. The late Lester B. Pearson spoke about this aspect of Canadian federalism in the following manner:

The existence of the Canadian community is to be found in the concern that individual Canadians feel for one another. Caring for the less privileged, and the disadvantaged, no longer is a matter for the local community alone; for haphazard municipal or charitable relief.

Canadians across the nation now contribute to sustain the income of their fellow citizens . . . They contribute to finance equalization . . . This is the sort of thing that happens when there is a sense of community.

b) The federal structure promotes co-operation between the two levels of government and permits them to develop a variety of creative arrangements to meet the needs of all Canadians. Consider, for example, the fact that some of these needs were met by constitutional amendment; others were met by formal agreements. In the case of retirement plans, the need of retired Canadians for income security was met by allowing one province a greater measure of autonomy than the others. The ability of Canadian federalism to accommodate such a variety of arrangements has been an important factor in promoting responsive government and accommodating the special needs of the provinces, whether they be cultural, economic or social.

c) The process of negotiation and discussion in the Canadian federal structure has ensured that provincial interests are brought to the fore. In a sense citizens are represented twice in national policy-making — by the Canadian government and by their provincial governments. At the same time, the decentralized nature of the process ensures the vitality and autonomy of the provinces so they can effectively discharge their strictly provincial responsibilities.

d) Inter-governmental co-operation promotes stability and continuity, two essential elements of responsive and responsible government. The federal govern-

ment and the provinces have been able to work together to amend the constitution when circumstances indicated that it was necessary. This has been very beneficial because it has permitted great changes to take place in Canada without any abrupt breaks with the past. For example, the founders of Canada did not foresee the need for services such as old age pensions or unemployment insurance, but inter-governmental co-operation has permitted orderly constitutional change so that all Canadians can have access to these two essential programs.

e) The flexible nature of Canadian federalism permits fluctuations in the power relations between the two levels of government as both our needs change and other circumstances dictate.

As recent examples of flexibility have shown, since the 1950s, the trend has been towards decentralization with the power shifting, and continuing to shift, to the provinces. As a result, today Canada is — by virtually any measure — one of the most, if not the most, decentralized federations in the world. By contrast, in the 1940s, the trend was towards centralization as power shifted to Ottawa to enable it to deal with the demands of World War II and the post-war reconstruction period.

The founders of our country thought in terms of creating a highly centralized governmental system in Canada, but the flexible nature of federalism has permitted constant change so that neither level of government has been locked into a rigid status quo position. In this perspective, it is worth repeating the following statement by Gilles Lalonde:

Federalism appears to be the perfect instrument for the future because of its extraordinary flexibility. In situations favourable to regional or provincial sovereignty, the federal system permits as much decentralization as ne-

*cessary within the limits of maintaining national unity. In more difficult periods such as economic crises or wars, the federal system permits as much centralization as is necessary.**

f) Finally, there are limits to the flexibility of Canadian federalism.

If Canada becomes too decentralized, it will cease to be a federation. Instead, Canada will be fragmented — a loose association of political units in which the effectiveness of the central government is dependent upon the will of the provinces.

This fragmentation would be incompatible with Canada's goals. It would jeopardize the ability of the central government to manage the economy, to deal with economic fluctuations and to contribute to rising living standards for the people of Canada. It would weaken the willingness of individual Canadians to contribute towards the well-being and progress of their fellow-citizens in the other provinces. And, it would weaken Canada at a time when size as well as excellence count in the struggle for economic, technological and cultural achievement.

Of course, excessive centralization or a trend towards a unitary state would be equally inconsistent with Canada's character — with its cultural diversity, with its vast size and distances that call for the extensive decentralization of government, and with the freedom that is characteristic of states where government powers are widely dispersed.

Indeed, with either excessive centralization or excessive decentralization, Canada would cease to be a federation. As such, Canada would lose the changing balance between the forces of diversity and solidarity and autonomy and interdependence that has worked to ensure the realization of the goals of Canadians.

**Not an official translation.*

This text does not necessarily represent the official position of the Government of Canada but seeks to contribute to the dialogue on this subject.



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